



**CITY OF MARYLAND HEIGHTS
YEAR ENDED DECEMBER 31, 2001**

**From The Office Of State Auditor
Claire McCaskill**

**Report No. 2003-24
March 12, 2003
www.auditor.state.mo.us**

AUDIT REPORT



Office Of The
State Auditor Of Missouri
Claire McCaskill

March 2003

The following problems were discovered as a result of an audit conducted by our office of the City of Maryland Heights, Missouri.

There is no documentation to support the determination of the purchase price of land bought for a park on Parkwood Lane. The city purchased the property for approximately \$240,000, while an appraisal performed for the city in February 2001 indicated the property value was \$180,000. In addition, there is no documentation to support the City Council's approval of the purchase price of the property.

The method of accounting for revenues and expenditures relating to parks and recreation is more complex than necessary. Accounting for all parks and recreation activities in the Parks Fund would more easily show compliance with restrictions regarding the use of the sales tax monies.

The city allocates construction management costs based on estimated rather than actual time spent on projects. For the year ended December 31, 2001, the city transferred \$538,904, to the General Fund for reimbursement of construction management costs. To ensure funds are used only for their restricted purpose, a more accurate allocation of the costs should be made based on actual time spent on each project.

City personnel are not ensuring invoice details agree to contracts. One contract for condemnation services did not contain any rates while invoices for engineering and telecommunications audit services contained rates other than those set by contract.

The City Council authorized a change order in 2000 for sewer repairs, increasing the original contract from \$42,500 to \$100,000, without requiring personnel to re-bid the services.

The city spent approximately \$13,000, for food and gifts at three annual appreciation dinners for city employees, members of city boards and commissions, and reserve officers. The city also often provides food at training sessions and other city meetings. Additionally, numerous credit card statements were paid without adequate supporting documentation of purchases during 2002 and 2001. Supporting documentation, could not be provided for 15 percent of credit card purchases reviewed, totaling \$1,239.

YELLOW SHEET

It is unclear how the criteria listed in the Request for Proposals (RFP) for audit services related to the criteria used to evaluate the audit firms, and city personnel did not maintain documentation to support the allocation of points to each firm. In addition, the city did not receive audits in compliance with their RFP.

Detailed minutes of closed meetings were not kept and minutes of committee and board meetings were not complete and maintained by the City Clerk.

All reports are available on our website: www.auditor.state.mo.us

CITY OF MARYLAND HEIGHTS, MISSOURI

TABLE OF CONTENTS

	<u>Page</u>
STATE AUDITOR'S REPORT	1-3
MANAGEMENT ADVISORY REPORT - STATE AUDITOR'S FINDINGS	4-13
<u>Number</u>	<u>Description</u>
1.	Parks and Stormwater Funds5
2.	Contracts7
3.	Expenditures9
4.	Professional Audit Services10
5.	Meeting Minutes12
HISTORY, ORGANIZATION, AND STATISTICAL INFORMATION	14-16

STATE AUDITOR'S REPORT



CLAIRE C. McCASKILL
Missouri State Auditor

To the Honorable Mayor
and
Members of the City Council
City of Maryland Heights, Missouri

The State Auditor was petitioned under Section 29.230, RSMo, to audit the city of Maryland Heights, Missouri. The city had engaged KPMG, LLP, Certified Public Accountants, to audit the city of Maryland Heights, Missouri, for the year ended December 31, 2001. To minimize any duplication of effort, we reviewed the report and substantiating working papers of the CPA firm. The scope of our audit of the city included, but was not necessarily limited to, the year ended December 31, 2001. The objectives of this audit were to:

1. Perform procedures to evaluate the petitioners' concerns.
2. Review compliance with certain legal provisions.
3. Review certain management practices.

Our audit was conducted in accordance with applicable standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and included such procedures as we considered necessary in the circumstances. In this regard, we reviewed minutes of meetings, written policies, financial records, and other pertinent documents and interviewed various personnel of the city.

Our audit was limited to the specific matters described above and was based on selective tests and procedures considered appropriate in the circumstances. Had we performed additional procedures, other information might have come to our attention that would have been included in this report.

The accompanying History, Organization, and Statistical Information is presented for informational purposes. This information was obtained from the city of Maryland Heights' management and was not subjected to the procedures applied in the audit of the city.

The accompanying Management Advisory Report presents our findings arising from our audit of the city of Maryland Heights, Missouri.

A handwritten signature in black ink, reading "Claire McCaskill". The signature is fluid and cursive, with the first name "Claire" written in a larger, more prominent script than the last name "McCaskill".

Claire McCaskill
State Auditor

November 8, 2002 (fieldwork completion date)

The following auditors participated in the preparation of this report:

Director of Audits:	Thomas J. Kremer, CPA
Audit Manager:	Alice M. Fast, CPA
In-Charge Auditor:	Douglas E. Brewer
Audit Staff:	Carl E. Zilch, Jr.

MANAGEMENT ADVISORY REPORT -
STATE AUDITOR'S FINDINGS

CITY OF MARYLAND HEIGHTS, MISSOURI
MANAGEMENT ADVISORY REPORT -
STATE AUDITOR'S FINDINGS

1.	Parks and Stormwater Funds
-----------	-----------------------------------

There was no documentation to support how the city arrived at the purchase price of land bought for a park or the City Council's approval of the purchase price. The method of accounting for revenues and expenditures relating to parks and recreation is more complex than necessary. In addition, the city allocates construction management costs based upon estimated, rather than actual, time personnel spend on specific projects.

In November 1995, voters approved a ½ cent sales tax to establish, administer, and maintain parks and stormwater facilities. The city deposits one-half of the sales tax collections in each of the separate parks and stormwater special revenue funds. During our review of these funds, we noted the following:

A. In February 2002, property was purchased on Parkwood Lane for the development of a neighborhood park.

- 1) There is no documentation to support the determination of the purchase price of this property. The city purchased the property for approximately \$240,000, while an appraisal performed for the city in February 2001 indicated the property value was \$180,000. In addition, the city paid a company approximately \$4,000 in connection with this purchase, for property acquisition services including negotiating the property's purchase price. However, no documentation was available to explain how the purchase price was determined or negotiated.

While a property's purchase price may exceed the appraised value, it is necessary to maintain supporting documentation of any negotiations so that residents can be assured tax monies were spent prudently.

- 2) There is no documentation to support the City Council's approval of the purchase price of the property. The City Council passed an ordinance in September 2001 authorizing the City Administrator to enter into a purchase agreement with the property owner; however, the ordinance did not include an approved purchase price.

It is important that ordinances involving property acquisition include the property's purchase price to clearly indicate the City Council is well informed of all purchasing details prior to its approval.

B. The method of accounting for revenues and expenditures relating to parks and recreation is more complex than necessary. Both the General Fund and the Parks

Fund are used to account for parks and recreation activities. The General Fund is used to account for facility user fees collected and administration and maintenance costs. The Parks Fund is used to account for the park's 50 percent share of the sales tax receipts and any capital improvement costs and debt payments.

The amount to be paid from the General Fund is limited to the amount of park costs paid from the fund prior to the inception of the sales tax. Sales tax monies are transferred from the Parks Fund to the General Fund to cover any remaining costs. For the year ended December 31, 2001, \$942,257 was transferred from the Parks Fund to the General Fund.

While the city's method of accounting for parks and recreation revenues and expenditures does not violate any law or accounting principle, accounting for all parks and recreation activities in the Parks Fund would provide a more clear and concise summary of overall activities. In addition, accounting for all parks and recreation activities in the Parks Fund would more easily show compliance with restrictions regarding the use of the sales tax monies.

- C. The city allocates the cost of the construction management office among various funds of the city based on estimated rather than actual time spent on projects. During 2001, the city began managing its own construction contracts rather than relying on an outside company to provide these services. The construction management office within the Public Works Department is responsible for inspecting, contracting, bidding, reviewing, and completing other related duties for stormwater and capital improvement projects. Transfers of construction management costs are made from the various capital improvement and special revenue funds to the General Fund based on the estimated time that the employees will spend on the various funds' projects instead of the actual time spent on the projects. For the year ended December 31, 2001, the city transferred \$538,904, to the General Fund for reimbursement of construction management costs.

To ensure funds are used only for their restricted purpose, a more accurate allocation of the costs should be made based on actual time spent on each project. Construction management personnel should keep detailed records of the actual time spent on each project so that management can accurately allocate the costs to the various funds.

WE RECOMMEND the City Council:

- A.1. Ensure adequate documentation exists to support the determination of the purchase price when property is acquired.
2. Ensure ordinances approving the purchase of property include all applicable details, such as purchase price.

- B. Consider accounting for all parks and recreation activities in the special revenue Parks Fund.
- C. Allocate construction management costs to city funds based on actual time spent on projects.

AUDITEE'S RESPONSE

- A. *The City's practice has always been to ensure documentation before the expenditure of funds. The State Auditor has noted a possible exception. The City will review practices to determine if any further action is needed to prevent this from reoccurring.*
- B. *The City has considered alternate means of accounting for the parks and recreation activities including this recommendation. We feel the current practice more appropriately communicates to the residents the full cost of services by placing these expenditures in the General Fund.*
- C. *The City will consider this suggestion.*

2. Contracts

City personnel are not ensuring invoice details agree to contracts. One contract reviewed did not contain any rates while some invoices contained rates other than those set by contract. Also, the City Council approved a change order which significantly changed the total of one contract without requiring the service to be re-bid.

- A. City personnel indicated they do not compare the invoiced rates on projects to the rates stated in the contracts prior to approving the invoices for payments. Rather, their review includes ensuring the overall contract amount is not exceeded. We noted the following concerns:
 - 1) As a part of the Millwell Connection Project, the city entered into a contract and paid \$62,609 for professional services relating to condemnation proceedings. The contract did not include the billable rates or the total estimated cost. Specific contract terms including billable rates and total contract amounts are necessary to ensure control over city expenditures and the project budget.
 - 2) City personnel did not ensure the invoiced rates agreed to the rates stated in the engineering firm's proposal and contract. Invoices indicated the rate of a Senior Engineer to be \$123 per hour, while the proposal showed rates of \$85 and \$130. The city paid this firm approximately \$272,487, relating to the Millwell Connection Project.

- 3) Invoices from a firm providing telecommunications company audit services did not contain adequate detail. For example, a contract for the period of July 2001 through December 2002, indicated the firm would bill the city \$150 per hour for the partner and \$65 per hour for support personnel. However, an invoice from June 2002, included services billed at a rate of \$95 per hour. The invoice did not indicate who performed these services. The city paid this firm approximately \$68,800, during the year ended December 31, 2001, and \$44,211 from January through October 2002.

City personnel should ensure the city only pays rates which are determined in proposals and established in contracts. In addition, invoices should contain sufficient detail to indicate the services received. Failing to perform detailed reviews of invoice terms increases the risk of the city being overcharged or not receiving the appropriate services.

- B. The City Council authorized a change order, increasing an original contract by 135 percent, without requiring personnel to re-bid the services. The city selected a firm, through a formal bidding process, to perform sewer repairs for the city's new lateral sewer repair program in 2000. Approximately four months after the program began, the city issued a change order increasing the firm's contract from \$42,500 to \$100,000. City personnel stated the increase was needed because the number of claims and repairs were underestimated for the new program.

When change orders materially change the amount of the original contract, the city should re-bid the services to ensure the city receives the best price for the services.

WE RECOMMEND the City Council:

- A. Require reviews of invoice details to ensure rates agree to those established in firms' proposals and contracts and that invoices contain sufficient detail to determine the services received.
- B. Ensure services are re-bid when a change order would materially change the amount of the original contract.

AUDITEE'S RESPONSE

- A. *The City agrees.*
- B. *The City will consider this suggestion.*

3.**Expenditures**

The city spent approximately \$13,000, for food and gifts at three annual appreciation dinners. The city also purchases food to be served at some city meetings. This does not appear to be a prudent use of public funds. In addition, there was no supporting documentation for 15 percent of the credit card purchases reviewed.

A. The city holds three separate annual appreciation dinners for city employees, members serving on city boards and commissions, and reserve officers. Spouses or guests are also invited to each of the dinners. During the year ended December 31, 2001, the city spent approximately \$13,000, on these three events:

- 1) The total cost of the appreciation dinner for city employees and guests was \$6,062 including \$622 for a beer and soda bar.
- 2) The cost of the appreciation dinner for members of city boards and commissions and their guests totaled \$5,449 including \$881 for a beer, wine, and soda bar.
- 3) The picnic held for reserve officers and their guests totaled \$1,553. The city purchased \$413 in food and \$1,140 in gift certificates for the officers.

In addition, the city often provides food at training sessions and other city meetings. Because the costs of providing food are charged to the budgets of the applicable city departments and are not separately identified, the city was unable to provide the total amount of food purchased for the year ended December 31, 2001. The city does not have a policy outlining the limits and circumstances for providing food for training or other city meetings.

The costs of the annual dinners and the frequency of serving food at training sessions and meetings appear excessive. They do not appear to be a prudent use of public funds.

B. Numerous credit card statements were paid without adequate supporting documentation of purchases during 2002 and 2001. Supporting documentation, such as original invoices, could not be provided for 10 of 68 (15 percent) credit card purchases reviewed, totaling \$2,139. These purchases were from an airline company, a drug store, a home decorating store, restaurants, various organizations, and a computer vendor.

The city's formal written policy does not require the submission of original invoices for credit card purchases. All expenditures should be supported by paid receipt slips or vendor-provided invoices. Without such documentation, it is unclear whether these purchases are valid and necessary city expenditures.

WE RECOMMEND the City Council:

- A. Ensure all city expenditures are a prudent use of public funds. At a minimum, the city should develop a policy outlining limits and circumstances for providing food.
- B. Ensure city personnel submit supporting documentation for all credit card purchases. In addition, the city's credit card policy should be updated to include this requirement.

AUDITEE'S RESPONSE

- A. *All expenditures are subject to the City Council's judgment of whether or not they are a prudent use of taxpayer funds. The State Auditor's Office should not substitute its judgment in place of those of the duly elected local authority.*

Further, these forms of expressing appreciation to volunteers and employees are appropriate and effective and do not violate state law or published rules.

- B. *The recommendation restates current City practice. When an exception exists (i.e., when no supporting documentation can be located), a responsible person specifically approves the expenditure before payment is made.*

4. Professional Audit Services

It was unclear how the criteria listed in the Request for Proposals (RFP) for audit services related to the criteria used to evaluate the audit firms, and city personnel did not maintain documentation to support the allocation of points to each firm. In addition, the city did not receive audits in compliance with their RFP.

The city formally selected an auditing firm in December 2000 to provide auditing services for a three-year period. Six firms submitted audit proposals varying in cost from \$33,000 to \$66,000. The city selected the firm with the highest bid of \$66,000 and has contracted for audit services with this same firm for approximately 15 years.

- A. Personnel within the city's finance department evaluate the firms' proposals. The Director of Finance submits a recommendation to the Finance Committee which then presents the recommendation to the City Council. During our review of the selection process, we noted the following:
 - 1) It was unclear how the criteria listed in the RFP related to the criteria used to evaluate the firms. Based on the evaluation forms, the criteria used to evaluate the firms included experience (60 points), price (30 points) and reputation (10 points). The RFP listed several additional criteria such as independence and license to practice but did not include reputation.

- 2) There is a lack of documentation to support how points were allocated to various firms during the evaluation process. We noted the firm with the lowest cost was given no points for experience; however, the firm's proposal indicated it had governmental auditing experience. In another example, city personnel allocated 15 points to one firm and 10 points to another firm for "governmental experience", but there was no documentation to explain how this conclusion was reached.

The city's RFP should list the same criteria as the criteria that will be used to evaluate each firm. Any differences can be misleading to firms and affect the firms' responses to the city's RFP. Furthermore, documenting the determination of point values for each firm helps support the recommendation made by city personnel.

- B. The city did not receive audits in compliance with their RFP. The RFP stated the audit was to be conducted in accordance with *Government Auditing Standards* and was to include a report on compliance and on internal control over financial reporting. However, this report was not included in the audits for 2000 or 2001, and the auditor's letters did not state the audits were conducted in accordance with *Government Auditing Standards*. It appears the city may have paid for more than they received.

City personnel indicated the audit firm was not required to perform the audit in compliance with *Government Auditing Standards* because the city did not meet the threshold for a single audit. However, the RFP clearly required a separate report on compliance and internal control over financial reporting, regardless of the need for a single audit. Furthermore, the firms were required to state prices for a single audit separately.

In addition, if such an audit is not a requirement, the city should make this clear in the RFP. Other firms may have indicated a lower price in their proposal if they had known this was not a requirement.

WE RECOMMEND the City Council:

- A. Ensure the detailed criteria used to evaluate firms are clearly documented in the RFP. In addition, we recommend the City Council ensure the determination of points is clearly documented.
- B. Ensure the city receives audits in compliance with the requirements of their RFP.

AUDITEE'S RESPONSE

The City's practice, which was modeled after the Government Finance Officers Association (GFOA) recommended practice for procuring audit services, resulted in a sound decision. We will take the State Auditor's comments under advisement.

AUDITOR COMMENT

We are not questioning the GFOA's criteria; however, we are concerned with the city's documentation of the selection process.

5. Meeting Minutes

The City Clerk maintains official minutes for City Council meetings. In addition, numerous secretaries and other individuals maintain minutes for six City Council committees and thirteen city boards and commissions. Detailed minutes of closed meetings were not kept and minutes of committee and board meetings were not complete and maintained by the City Clerk.

- A. Minutes do not contain a summarization of the discussions held in closed City Council meetings. Section 610.020, RSMo 2000, allows the City Council to close meetings to the extent the meetings relate to specified subjects, including litigation, real estate transactions, and personnel issues.

Although closed minutes are not specifically required by law, minutes constitute the record of proceedings of the Council and help ensure the provisions of the Sunshine Law, Chapter 610, RSMo 2000, have been followed.

- B. Committee and board minutes were not complete and were not maintained by the City Clerk, the official custodian of records. Signatures of the secretary or other preparer were not included in some minutes and some minutes were composed of agendas and attachments but did not include a summarization of meeting discussions.

Complete and accurate minutes provide an official record of board and committee actions. In addition, Section 610.020, RSMo, requires minutes be taken and include the date, time, place, members present, members absent, and a record of votes taken. Furthermore, minutes should be signed to provide an independent attestation that the minutes are an accurate record of the matters discussed and actions taken during the meetings.

WE RECOMMEND the City Council:

- A. Consider maintaining a summarization of discussions held in closed meetings to better document the Council's activities.

- B. Ensure adequate minutes are taken of all committee and board meetings and that all minutes are signed. In addition, the City Council should ensure copies of these minutes are maintained by the City Clerk.

AUDITEE'S RESPONSE

- A. *The City's current practice complies with state law. The City will continue to rely on the advice of its legal counsel to assure compliance with state law.*
- B. *The City agrees and will reevaluate our current practice and make changes as appropriate.*

HISTORY, ORGANIZATION, AND
STATISTICAL INFORMATION

CITY OF MARYLAND HEIGHTS, MISSOURI
HISTORY, ORGANIZATION, AND
STATISTICAL INFORMATION

The city of Maryland Heights is located in St. Louis County. The city was incorporated in 1985 as a third-class city. The population of the city in 2000 was 25,756.

The city government consists of a mayor and an eight-member City Council. The members are elected for two-year terms. The Mayor is elected for a four-year term, presides over the City Council, and votes only in the case of a tie. The Mayor, City Council, and other principal officials at December 31, 2001, were:

Elected Officials	Term Expires	Compensation Paid for the Year Ended December 31, 2001	Amount of Bond
Michael O'Brien, Mayor (1)	April 2002	\$ 12,000	\$ 100,000
Richard Goldberg, Councilman	April 2003	6,000	0
John Pellet, Councilman (2)	April 2002	2,000	0
G. Michael Moeller, Councilman (3)	April 2003	6,000	0
Judith Barnett, Councilman	April 2002	6,000	0
Mark Mierkowski, Councilman	April 2003	4,250	0
Daniel Johnson, Councilman	April 2002	6,000	0
Danny Fitzgerald, Councilman	April 2003	4,250	0
Norman Rhea, Councilman	April 2002	6,000	0
 Other Principal Officials			
Carol Turner, City Clerk (4)		56,053	0
Mark Levin, City Administrator		124,483	0
David Watson, Director of Finance		80,046	500,000
Thomas O'Connor, Chief of Police		81,724	0
Howard Paperner, City Attorney		(5)	

(1) G. Michael Moeller was elected mayor in April 2002.

(2) John Pellet passed away in May 2001. Kenneth Gold was appointed to this position in September 2001 and then was elected to the position in April 2002.

(3) Elected mayor in April 2002. Edwin Dirck was appointed to this position in April 2002.

(4) Retired in July 2002, and was replaced by Marcia Hayden.

(5) The city contracts with the City Attorney's law firm for legal services. Total payments to the contractor for legal services totaled \$115,538.

On December 31, 2001, the city employed approximately 185 full-time and 43 part-time employees.

Assessed valuations for 2001 were as follows:

ASSESSED VALUATION

Real estate	\$ 590,576,990
Personal property	240,470,478
Railroad and Utility	<u>9,110,775</u>
Total	<u>\$ 840,158,243</u>

The city has no property tax. The following sales tax rates are per \$1 of retail sales:

	<u>Rate</u>	<u>Expiration Date</u>
Special Revenue Parks and Stormwater	\$ 0.05000	none

In addition, the city receives gambling taxes from a riverboat casino. The city allocated the gambling taxes in 2001 as follows:

<u>Fund</u>	<u>Allocation Percentage</u>
Capital Improvements	53
Maryland Heights/Earth City Expressway	30
General	12
Reserve	5